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ACC 302: Intermediate financial Accounting II

Business Valuation

29/5/2020.

Solution:

1. Average of 3 years Profit:

	2013 #	2014 #	2015 #
Profit	650,000	720,000	835,000
Depreciation	(150,000)	(150,000)	(150,000)
Director's Remuneration	125,000	205,000	225,000
Inventory overvalued	(120,000)		
Adjusted Profit	<u>505,000</u>	<u>775,000</u>	<u>910,000</u>

$$\text{Current Earnings} = \frac{\text{\#}505,000 + \text{\#}775,000 + \text{\#}910,000}{3}$$

$$= \frac{2,190,000}{3}$$

$$= 730,000$$

∴ Current earnings = 730,000

Earnings yield = Average of Company 1 and Company 2

$$= \frac{5.4 + 6.6}{2}$$

$$= \frac{12}{2} = 6\%$$

$$\begin{aligned} \text{P/E Basis} &= \frac{730,000}{6} \\ &= 121.67 \end{aligned}$$

2. Dividend Yield Basis:

$$= \frac{\text{Current or expected dividend}}{\text{Dividend yield}}$$

$$\text{Current dividend} = \text{₹} 450,000$$

$$\text{Dividend yield} = \text{Average of Company 1 \& 2}$$

$$04 = \frac{0.09 + 0.11}{2}$$

$$= \frac{0.2}{2}$$

$$\text{Dividend Yield Basis} = \frac{\text{₹} 450,000}{0.1}$$

$$= \text{₹} 4,500,000$$

3. Book Value basis:

Non-current Assets:

Freehold Premises

₹  
1300

Equipments

3120

Current Assets:

Inventory (1395 - 120)

1,275

Receivables

965

Bank

130

Less Payables

(820)

5,970

4. Replacement value Basis:

Freehold Premises	<del>£</del> 3000
Equipment	1730
Inventory	<u>870</u>
	5600
LESS payables	<u>820</u>
	<u><u>4780</u></u>

5. Liquidation Basis:

Freehold Premises	<del>£</del> 3000
Equipment	1080
Inventory	1600
	5680
LESS payables	<u>820</u>
	<u><u>4860</u></u>